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Nonbusiness Disasters, Casualties, and Thefts

For use in preparing

1995 Returns

Contents

Important Reminder

Insurance reimbursement. If you have insurance that covers your casualty or theft loss, you must file a timely insurance claim for reimbursement. Otherwise, you cannot deduct the loss. However, the portion of the loss that would not usually be covered by insurance (for example, a deductible) could be deducted. See *Insurance and Other Reimbursements.*

Introduction

This publication explains how to treat casualty and theft losses for tax purposes when the losses are ***not*** business related. You have a casualty loss if you suffer damage to your property as a result of disasters such as hurricanes, fires, car accidents, and similar events. You have a theft loss if someone steals your property. You may be able to deduct the loss if you file Form 1040 and itemize your deductions on Schedule A (Form 1040).

When determining your deductible loss, certain limits apply. See *Deduction Limits,* later.

Useful Items

You may want to see:

Publication

- ☐ **525** Taxable and Nontaxable Income
- ☐ **550** Investment Income and Expenses
- ☐ **551** Basis of Assets
- ☐ **584** Nonbusiness Disaster, Casualty, and Theft Loss Workbook

Form (and Instructions)

- ☐ **Schedule A** (Form 1040) Itemized Deductions
- ☐ **Schedule D** (Form 1040) Capital Gains and Losses
- ☐ **4684** Casualties and Thefts

Other sources of information. For information on a casualty, theft, or condemnation concerning business or income-producing property, see Chapter 25 in Publication 334, *Tax Guide for Small Business.* For information on a condemnation of your home, see *Involuntary Conversions* in Publication 544, *Sales and Other Dispositions of Assets.* Also see *Condemned property* under *Old Home* in Publication 523, *Selling Your Home.*

Publication 584, *Nonbusiness Disaster, Casualty, and Theft Loss Workbook,* is available to help you make a list of your damaged goods and figure your loss. That publication can serve as an inventory of your personal goods. It includes schedules to help you figure the loss on your home and its contents, and your motor vehicles.

Ordering publications and forms. To order free publications and forms, call 1–800–TAX–FORM (**1–800–829–3676**). If you have access to TDD equipment, you can call 1–800–829–4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can also get many forms and publications electronically. See *How to get Forms and Publications* in your Form 1040 or Form 1040A tax package for details.

Asking tax questions. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call **1–800–829–1040** (1–800–829–4059 for TDD users).

Loss on Deposits

A loss on deposits can occur when a bank, credit union, or other financial institution becomes insolvent or bankrupt. If you incurred such a loss, you may be able to deduct the loss in one of three ways:

1) As a nonbusiness bad debt,
2) As a casualty loss, or
3) As an ordinary loss.

Note. You cannot choose (2) or (3) if you own at least 1% of the financial institution, are an officer of the financial institution, or are related to that owner or officer.

Choice of Loss Deduction

If you qualify to choose the kind of deduction as explained above, the following information may help you choose the one that is best for you.

Nonbusiness bad debt. A nonbusiness bad debt is deducted as a short-term capital loss on Schedule D (Form 1040). The capital loss that can be deducted after offsetting capital gains is limited to $3,000 ($1,500 if married filing separately) for each year. For more details, see *Nonbusiness Bad Debts,* in Publication 550.

Casualty loss. A casualty loss deduction has no maximum limit. But in figuring the deduction, you must reduce the loss by $100 and your total losses by 10% of adjusted gross income, as explained later. You must itemize deductions on Schedule A (Form 1040).

Ordinary loss. An ordinary loss deduction for a loss on deposits at a particular financial institution is limited to $20,000 ($10,000 if married filing separately) reduced by any expected state insurance proceeds. Further, the deduction is taken as a miscellaneous itemized deduction on Schedule A (Form 1040) and is subject to the 2% of adjusted gross income limit for that year. See Publication 529, *Miscellaneous Deductions,* for information on this limit. It may also be affected by the overall limit on itemized deductions.

Note. You cannot choose the ordinary loss deduction if any part of the deposits related to the loss is federally insured (example—FDIC).

When to Choose

You can choose to deduct a loss on deposits as a ***casualty loss*** or as an ***ordinary loss*** for any year in which you can reasonably estimate how much of your deposits you have lost in an insolvent or bankrupt financial institution. The choice generally is made on the return you file for that year. Once you treat the loss as a casualty or ordinary loss, ***you cannot*** treat the same amount of the loss as a nonbusiness bad debt when it actually becomes worthless. Also, the choice applies to all your losses on deposits for the year in that particular financial institution.

If you do not make a choice, you must wait until the actual loss is determined before you can deduct the loss as a ***nonbusiness bad debt.*** Once you make the choice, you cannot change it without permission from the Internal Revenue Service.

How to Report

The kind of deduction you choose for your loss on deposits determines how you report your loss.

- Nonbusiness bad debt—report on Schedule D (Form 1040), Part I, line 1.
- Casualty loss—report on Form 4684 first and then on Schedule A (Form 1040), line 19.
- Ordinary loss—report on Schedule A (Form 1040), line 22.

Deducted Loss Recovered

If you recover an amount you deducted as a loss in an earlier year, you may have to include the amount recovered in your income for the year of recovery. If any part of the original deduction did not reduce your tax in the earlier year, you do not have to include that part of the recovery in your income. For more information, see *Recoveries* in Publication 525.

Casualty

A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual.

- A ***sudden*** event is one that is swift, not gradual or progressive.
- An ***unexpected*** event is one that is ordinarily unanticipated and unintended.
- An ***unusual*** event is one that is not a day-to-day occurrence and that is not typical of the activity in which you were engaged.

A casualty can also include a government-ordered demolition or relocation of a home that is unsafe to use because of a disaster. See *Disaster Area Losses,* later.

Deductible losses. Deductible casualty losses can result from a number of different causes, including:

Earthquakes

Hurricanes

Tornadoes

Floods

Storms

Volcanic eruptions

Shipwrecks

Mine cave-ins

Sonic booms

Vandalism

Fires. If you willfully set the fire, or pay someone else to set it, you cannot deduct the resulting loss.

Car accidents. The loss from an accident to your car is not a casualty loss if your willful negligence or willful act caused the accident. The same is true if the willful act or willful negligence of someone acting for you caused the accident.

Other accidents. A loss due to accidental breakage of china or glassware under normal conditions is not a casualty loss. Neither is a loss due to damage done by a family pet.

Nondeductible losses. There is no casualty loss deduction if the damage or destruction is caused by:

Termites or moths.

Disease, insects, etc. The progressive damage or destruction of trees, shrubs, or other plants by a fungus, disease, insects, worms, or similar pests is not a deductible casualty loss. But a sudden destruction due to an unexpected or unusual infestation by beetles or other insects may result in a casualty loss. If a storm, flood, or fire damages trees and shrubs, the loss is a casualty.

Progressive deterioration. If a steadily operating cause or a normal process damages your property, it is not considered a casualty. Thus, the steady weakening of a building due to normal wind and weather conditions is not a casualty. The rust and water damage to rugs and drapes caused by the bursting of a water heater qualifies as a casualty. The deterioration and damage to the water heater itself does not qualify.

Drought. When drought causes damage or loss through progressive deterioration, it is not a casualty loss.

Theft

A theft is the unlawful taking and removing of money or property with the intent to deprive the owner of it. It includes, but it is not limited to, larceny, robbery, and embezzlement.

If money or property is taken as the result of extortion, kidnapping, threats, or blackmail, it can also be a theft. In these instances, you need only show that the taking of your property was illegal under the law of the state where it occurred, and that it was done with criminal intent.

Mislaid or lost property. The mere disappearance of money or property is not a theft. However, an accidental loss or disappearance of property can qualify as a casualty if it results from an identifiable event that is sudden, unexpected, or unusual.

Example. A car door is accidentally slammed on your hand, breaking the setting of your diamond ring. The diamond falls from the ring and is never found. The loss of the diamond is a casualty.

Proof of Loss

To take a deduction for a casualty or theft loss, you must be able to show that there was a casualty or theft. You also must be able to support the amount you take as a deduction.

For a casualty loss, you should be able to show:

- The type of casualty (car accident, fire, storm, etc.) and when it occurred,
- That the loss was a direct result of the casualty, and
- That you were the owner of the property, or if you leased the property from someone else, that you were contractually liable to the owner for the damage.

For a theft loss, you should be able to show:

- When you discovered that your property was missing,
- That your property was stolen, and
- That you were the owner of the property.

Figuring a Loss

To determine your deduction for a casualty or theft loss, you must first figure your loss, and then figure any limits on the amount of loss you can deduct. You may want to use Publication 584 to help you make a list of your damaged goods.

Amount of loss. Figure your casualty or theft loss by subtracting any insurance or other reimbursement you receive or expect to receive from the smaller of the following two amounts:

1) The decrease in ***fair market value*** of the property as a result of the casualty or theft, or
2) Your ***adjusted basis*** in the property before the casualty or theft.

The decrease in fair market value is the difference between the property's value immediately before and immediately after the casualty or theft. See *Decrease in Fair Market Value,* later for more information.

Fair market value (FMV). FMV is the price for which you could sell your property to a willing buyer, when neither of you has to sell or buy and both of you know all the relevant facts.

Adjusted basis. Adjusted basis is your basis (usually cost) increased or decreased by various events, such as improvements and casualty losses. See *Basis,* later.

Theft. The FMV of property immediately after a theft is considered to be zero since you no longer have the property. Figure your theft loss using the smaller of the stolen property's FMV or adjusted basis.

Example. Several years ago, you purchased silver dollars at face value for $150. This is your adjusted basis in the property. Your silver dollars were stolen this year. The FMV of the coins was $1,000 when stolen, and insurance did not cover them. Your theft loss is $150.

The cost of protection. The cost of protecting your property against a casualty or theft is not part of a casualty or theft loss. What you spend on insurance or to board up your house against a storm is not part of your loss. These expenses are deductible only by businesses as business expenses.

If you make permanent improvements to your property to protect it against a casualty or theft, add the cost of these improvements to your basis in the property. An example would be the cost of a dike to prevent flooding.

Related expenses. The incidental expenses due to a casualty or theft, such as expenses for the treatment of personal injuries, for temporary housing, or for a rental car, are not part of your casualty or theft loss.

Repair and replacement costs The cost of repairing damaged property or replacing stolen or destroyed property is not part of a casualty or theft loss. Neither is the cost of cleaning up after a casualty. But see *Leased property,* later, and *Measuring decrease in FMV,* later.

Example. You bought a new chair 4 years ago for $300. In April, a fire destroyed the chair. You estimate that it would cost $500 to replace it. If you had sold the chair before the fire, you estimate that you could have received only $100 for it because it was 4 years old. The chair was not insured. Your loss is $100, the FMV of the chair before the fire. It is not $500, the replacement value.

Recovered property. If you get your stolen property back, your loss is measured like a casualty loss from vandalism. That is, you must consider the actual FMV of the property when you get it back. Your loss is the smaller of:

- The decrease in the FMV of the property from the time it was stolen until the time it is recovered, or
- Your adjusted basis in the property.

Leased property. If you are liable for casualty damage to property you lease, your loss is the amount you must pay to repair the property.

Business or income-producing property. If you have business or income-producing property, such as rental property, and it is completely destroyed or lost because of a casualty or theft, your loss is:

Your adjusted basis in the property

MINUS

Any salvage value

MINUS

Any insurance or other reimbursement you receive or expect to receive

The decrease in FMV is not considered. See Chapter 25 in Publication 334.

Separate computations. Generally, if a single casualty or theft involves more than one item of property, you must figure the loss on each item separately. Then combine the losses to determine the total loss from that casualty or theft.

Exception for real property. In figuring a casualty loss on nonbusiness real property, the entire property (including any improvements, such as buildings, trees, and shrubs) is treated as one item. Figure the loss using the smaller of:

- The decrease in FMV of the entire property, or
- The adjusted basis of the entire property.

See the discussion for real property under *Figuring the Deduction,* later.

Decrease in Fair Market Value

To figure the decrease in FMV because of a casualty or theft, you must make a determination of the actual price you could have sold your property for immediately before and immediately after the loss. An appraisal is the best way to make this determination. See *Appraisals,* later.

Items not to be considered. You generally should not consider the following items when attempting to establish the FMV of your property.

Sentimental value. Do not consider sentimental value when determining your loss. If a family portrait, heirloom, or keepsake is damaged, destroyed, or stolen, you must base your loss only on its actual market value.

General decline in market value. A decrease in the value of your property because it is in or near an area that suffered a casualty, or that might again suffer a casualty, is not to be taken into consideration. You have a loss only for actual casualty damage to your property. However, if your home is in a federally declared disaster area, see *Disaster Area Losses,* later.

Measuring decrease in FMV. You can use the cost of cleaning up or of making repairs after a casualty as a measure of the decrease in FMV if you meet all the following conditions.

1) The repairs are necessary to bring the property back to its condition before the casualty.
2) The amount spent for repairs is not excessive.
3) The repairs take care of the damage only.
4) The value of the property after the repairs is not, due to the repairs, more than the value of the property before the casualty.

Restoration of landscaping. The cost of restoring landscaping to its original condition after a casualty may indicate the decrease in FMV. You may be able to measure your loss by what you spend on the following:

1) Removing destroyed or damaged trees and shrubs, minus any salvage you receive,
2) Pruning and other measures taken to preserve damaged trees and shrubs, and
3) Replanting necessary to restore the property to its approximate value before the casualty.

Sources of valuation information. It is often difficult to value your property before and after the casualty or theft. The following sources will be helpful in establishing these values.

Photographs. Photographs taken after a casualty will be helpful in establishing the condition and value of the property after it was damaged. Photographs showing the condition of the property after it was repaired, restored, or replaced may also be helpful.

The cost of photographs obtained for this purpose is not a part of the loss. It is an expense in determining your tax liability. You can claim this cost as a miscellaneous deduction subject to the 2% of adjusted gross income limit on line 22, Schedule A (Form 1040). See Publication 529.

Cars. Books issued by various automobile organizations may be useful in figuring the value of your car, if your car is listed in the books. You can use the books' retail values and modify them by factors such as the mileage and condition of your car to figure its value. The prices are not ''official,'' but they may be useful in determining value and suggesting relative prices for comparison with current sales and offerings in your area. If your car is not listed in the books, you determine its value from other sources. A dealer's offer for your car as a trade-in on a new car is not usually a measure of its true value.

Appraisals. The difference between the FMV of the property immediately before a casualty or theft and immediately afterwards should be determined by a competent appraiser. The appraiser must recognize the effects of any general market decline that may occur along with the casualty. This is necessary so that any deduction is limited to the actual loss resulting from damage to the property.

The appraiser should be reliable and experienced. Several factors are important in evaluating the accuracy of an appraisal, including the appraiser's:

- Familiarity with your property before and after the casualty or theft,
- Knowledge of sales of comparable property in the area,
- Knowledge of conditions in the area of the casualty, and
- Method of appraisal.

Appraisal fees. You can deduct your appraisal fees as a miscellaneous deduction subject to the 2% of adjusted gross income limit on Schedule A (Form 1040), line 22. The appraisal fee is an expense in determining your tax liability. It is not a part of the casualty loss. See Publication 529.

Records. It is important that you have records that will prove your deduction. If you do not have the actual records to support your deduction, you can use other satisfactory evidence that is sufficient to establish your deduction.

Basis

Basis is the measure of your investment in the property you own. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it, receiving it as a gift, or getting it in a tax-free exchange, you must figure your basis in another way, as explained in Publication 551.

Adjusted basis. While you own the property, various events may take place that change your basis. Some events, such as additions or permanent improvements to the property, increase basis. Others, such as earlier casualty losses and depreciation deductions, decrease basis. When you add the increases to the basis and subtract the decreases from the basis, the result is your ***adjusted basis.*** Get Publication 551 for more information on figuring the basis of your property.

Insurance and Other Reimbursements

If your property is covered by ***insurance,*** you should file a timely insurance claim for reimbursement of a loss. Otherwise, you cannot deduct this loss as a casualty or theft loss. The portion of the loss usually not covered by insurance (for example, a deductible) is not subject to this rule.

Example. You have a car insurance policy with a $500 deductible. Because your insurance did not cover the first $500 of an auto collision, the $500 would be deductible (subject to the $100 and 10% rules discussed later). This is true, even if you do not file an insurance claim, because your insurance policy would never have reimbursed you for it.

Reduction of loss. If you receive insurance or another type of reimbursement, you must subtract the reimbursement when you figure your loss. You do not have a casualty or theft loss to the extent you are reimbursed.

If you expect to be reimbursed, but have not yet received payment, you must still subtract the expected reimbursement.

Gain from reimbursement. If your reimbursement is more than your basis in the property, you have a gain. This is true even if the decrease in the FMV of the property is more than the basis. If you have a gain, you may have to pay tax on it, or you may be able to postpone reporting the gain. See *Figuring a Gain,* later.

Other reimbursements. Insurance is the most common way to be reimbursed for a casualty or theft loss. But you may be reimbursed in some other way. The following items are considered reimbursements:

- The forgiven part (the part you do not have to pay back) of a federal disaster loan under the Disaster Relief and Emergency Assistance Act,
- The repayment and the cost of repairs by the person who leases your property,
- Court awards for damages for a casualty or theft loss (the amount you are able to collect) minus lawyers' fees and other necessary expenses,
- Repairs, restoration, or cleanup services provided by relief agencies, and
- A bonding company payment for a theft loss.

If you receive money as an employee from your employer's emergency disaster fund, and you must use that money to rehabilitate or replace property on which you are claiming a casualty loss deduction, then you must take that money into consideration in computing the casualty loss deduction to the extent you used such money to replace your destroyed or damaged property.

Example. Your home was extensively damaged by a tornado. The company you work for set up a fund. The fund made payments to employees. You must use any

Table 1. **Deduction Limit Rules**

These rules apply to a casualty or theft loss to nonbusiness property.

	$100 Rule	**10% Rule**
Definition of Rule	You must reduce each casualty or theft loss by $100 when figuring your deduction. Apply this rule after you reduce your loss by any reimbursement.	You must reduce your total casualty or theft loss by 10% of your adjusted gross income from line 32 of Form 1040. Apply this rule after you reduce each loss by any reimbursement and by $100 (the $100 rule).
Single Event	Apply this rule only once, even if many pieces of property are affected.	Apply the rule only once, even if many pieces of property are affected.
More Than One Event	Apply this rule to the loss from each event.	Apply the rule to the total of all your losses from all events.
More Than One Person- With Loss From the Same Event (other than a married couple filing jointly)	Apply the rule separately to each person.	Apply the rule separately to each person.
Married Couple— With Loss From the Same Event		
Filing jointly	Apply this rule as if you were one person.	Apply this rule as if you were one person.
Filing separately	Apply this rule separately to each spouse.	Apply this rule separately to each spouse.
More Than One Owner (other than a married couple filing jointly)	Apply the rule separately to each owner of jointly owned property.	Apply the rule separately to each owner of jointly owned property.

money you receive from the fund to rehabilitate or replace your property. In figuring your casualty loss deduction, you must take these payments into consideration to the extent you used the payments as reimbursement for or replacement of damaged or destroyed property.

Payments Not Considered Reimbursements. If you are a disaster victim who receives ***excludable cash gifts,*** and there are no limits on how you can use the money, you do not reduce your casualty loss deduction by the amount of the excludable cash gifts even if you use the money to pay for repairs to property damaged in the disaster.

Example. Your home was damaged by a hurricane. Relatives and neighbors made cash gifts to you which were excludable from your income. You applied part of the cash gifts to the cost of repairing your home. There were no limits or restrictions on how you could use the cash gifts. The money you received as excludable gifts and used to pay for repairs to your home does not reduce the amount which you can deduct as a casualty loss on the damaged home.

Payments for living costs. If an insurance company pays you for any of your living expenses after you lose the use of your home because of a casualty, the insurance payments are not a reimbursement that reduces your deductible casualty loss.

You must report as income insurance payments covering your normal living expenses. However, the part of insurance payments that compensates you for a temporary increase in the living expenses you and your family have during this period does not have to be reported as income. The same rules apply to insurance payments for living expenses if you are denied access to your home by government authorities due to a casualty or the threat of a casualty.

The increase in your living expenses is the amount of your actual living expenses minus your normal living expenses. Do not include in income the payment you received for your extra expenses for renting suitable housing and for transportation, food, utilities, and miscellaneous services during the period you are unable to use your home because of the casualty.

Example. As a result of a fire, you vacated your apartment for a month and moved to a motel. You normally pay $525 a month rent. None was charged for the month the apartment was vacated. Your motel rent for this month was $1,200. You received $1,100 reimbursement from your insurance company for rental expenses.

The part of the insurance payment that reimburses you for the amount of your actual rent minus your normal rent is $675 ($1,200 – $525). You do not include the $675 (the increase in your living expenses) in income. But you do include in income the balance of the insurance received, $425 ($1,100 – $675).

Disaster relief. Food, medical supplies, and other forms of assistance you receive do not reduce your casualty loss, unless they are replacements for lost or destroyed property. They also are not taxable income to you.

Disaster unemployment assistance payments are unemployment benefits that are taxable.

Deduction Limits

After you have figured your casualty or theft loss, you must figure how much of the loss you can deduct. If your loss was to property you had for your own or your family's personal use, there are ***two limits*** on the amount you can deduct for your casualty or theft loss.

1) You must reduce your loss by $100. If you had more than one casualty or theft loss, you must reduce each loss by $100.
2) You must further reduce your loss by 10% of your adjusted gross income (line 32 of Form 1040). If you had more than one casualty or theft loss, this 10% limit applies to the total of all your losses for the year.

However, the 10% rule does not apply if you have casualty gains that are more than your casualty losses. See *Gains and losses,* under *10% Rule,* later. Also see *Table 1.*

$100 Rule

The first $100 of a casualty or theft loss on nonbusiness property is not allowable. This rule applies after all reimbursements have been subtracted from your total casualty or theft loss.

Example. You have $250 deductible collision insurance on your car. The car is damaged in a collision. The insurance company pays you for the damage minus the $250 deductible. Your casualty loss for the collision is $150 ($250 – $100) because the first $100 of a casualty loss on nonbusiness property is not allowable.

Single event. A single $100 reduction applies to each casualty or theft, no matter how many pieces of property are involved.

Generally, events closely related in origin cause a single casualty. It is a single casualty when the damage is due to two or more closely related causes, such as wind and flood damage caused by the same storm. A single casualty may also damage two or more pieces of property, such as a hailstorm that damages both your home and your car parked in your driveway.

Example 1. A thunderstorm destroyed your pleasure boat. You also lost some boating equipment in the storm. Your loss was $5,000 on the boat and $1,200 on the equipment. Your insurance company reimbursed you $4,500 for the damage to your boat. You had no insurance coverage on the equipment. Your casualty loss is from a single event and the $100 rule applies once. Figure your loss before applying the 10% rule (discussed later) as follows:

	Boat	Equipment
1. Loss	$5,000	$ 1,200
2. Subtract insurance	4,500	–0–
3. Loss after reimbursement	$ 500	$ 1,200
4. Total loss		$ 1,700
5. Subtract $100		100
6. **Loss before 10% rule**		**$ 1,600**

Example 2. Thieves broke into your home in January and stole a ring and a fur coat. You had a loss of $200 on the ring and $700 on the coat. This is a single theft. The $100 rule applies to the total $900 loss.

Example 3. In September, hurricane winds blew the roof from your home. Flood waters caused by the hurricane further damaged your home and destroyed your furniture and personal car. This is considered a single casualty. The $100 rule is applied to your total loss from the flood waters and the wind.

More than one loss. If you have more than one casualty or theft loss during your tax year, you must reduce each loss by $100.

Example. Your family car was damaged in an accident in January. Your loss after the insurance reimbursement was $75. In February, your car was damaged in another accident. This time your loss after the insurance reimbursement was $90. Apply the $100 rule to each separate casualty loss. Since neither accident resulted in a loss of over $100, you are not entitled to any deduction for these accidents.

More than one person. If two or more individuals (other than a husband and wife filing a joint return) have losses from the same casualty or theft, the $100 rule applies separately to each.

Example. A fire damaged your house and also damaged the personal property of your house guest. You must reduce your loss by $100. Your house guest must reduce his or her loss by $100.

Married taxpayers. If you and your spouse have a casualty or theft loss and you file a joint return, you are treated as one individual in applying the $100 rule. It does not matter whether you own the property jointly or separately.

If you and your spouse have a casualty or theft loss and you file separate returns, each of you must reduce your loss by $100. This is true even if you own the property jointly. If one spouse owns the property, only that spouse can figure a loss deduction on a separate return.

If the casualty or theft loss is on property you own as tenants by the entirety, each of you can figure your deduction on only one-half of the loss on separate returns. Neither of you can figure your deduction on the entire loss on a separate return. Each of you must reduce the loss by $100.

More than one owner. If two or more individuals (other than husband and wife filing a joint return) have a loss on property jointly owned, the $100 rule applies separately to each. For example, if two sisters live together in a home they own jointly and they have a casualty loss on the home, the $100 rule applies separately to each sister.

10% Rule

You must reduce the total of all your casualty or theft losses by 10% of your adjusted gross income (line 32, Form 1040). Apply this rule after you reduce each loss by any reimbursement and by $100. If you have both gains and losses from casualties or thefts, see *Gains and losses,* later in this discussion.

Example. In June, you discovered that your house had been burglarized. Your loss after insurance reimbursement was $2,000. Your adjusted gross income is $29,500. Figure your theft loss as follows:

1. Loss after insurance	$2,000
2. Subtract $100	100
3. Loss after $100 rule	$1,900
4. Subtract 10% of $29,500 AGI	$2,950
5. **Theft loss deduction**	**$ –0–**

When you apply the 10% rule, you find you do not have a theft loss deduction because your loss ($1,900) is less than 10% of your adjusted gross income ($2,950).

More than one loss. If you have more than one casualty or theft loss during your tax year, reduce each loss by any reimbursement and by $100. Then you must reduce the total of all your losses by 10% of your adjusted gross income.

Example. In March, you had a car accident that totally destroyed your car. You did not have collision insurance on your car, so you did not receive any insurance reimbursement. Your loss on the car was $1,200. In November, a fire damaged your basement and totally destroyed the furniture, washer, dryer, and other items you had stored there. Your loss on the basement items after reimbursement was $1,700. Your adjusted gross income is $25,000. You figure your casualty loss deduction as follows:

	Car	Basement
1. Loss	$1,200	$ 1,700
2. Subtract $100 per incident	100	100
3. Loss after $100 rule	$1,100	$ 1,600
4. Total loss		$ 2,700
5. Subtract 10% of $25,000 AGI		2,500
6. **Casualty loss deduction**		**$ 200**

Married taxpayers. If you and your spouse have a loss from the same casualty or theft and you file a joint return, you are treated as one individual in applying the 10% rule. It does not matter if you own the property jointly or separately.

If you file separate returns, the 10% rule applies to each return on which a loss is claimed.

More than one owner. If two or more individuals (other than husband and wife filing a joint return) have a loss on property that is owned jointly, the 10% rule applies separately to each.

Gains and losses. If you have casualty or theft gains as well as losses to nonbusiness property, you must ***compare your total gains to your total losses.*** Do this after you have reduced each loss by any reimbursements and by $100 but before you have reduced the losses by 10% of your adjusted gross income.

If your losses are more than your recognized gains, subtract your gains from your losses and reduce the result by 10% of your adjusted gross income. The remainder, if any, is your deductible loss from nonbusiness property.

Example. Your theft loss after reducing it by reimbursements and by $100 is $2,700. Your casualty gain is $700. Because your loss is more than your gain, you must reduce your $2,000 net loss ($2,700 – $700) by 10% of your adjusted gross income.

If your recognized gains are more than your losses, subtract your losses from your gains. The difference is treated as a capital gain and must be reported on Schedule D (Form 1040). The 10% rule does not apply to your losses.

Example. Your theft loss after reducing it by reimbursements and by $100 is $600. Your casualty gain is $1,600. Because your gain is more than your loss, you must report the $1,000 net gain ($1,600 – $600) on Schedule D.

Note. For information on how to figure recognized gains, see *Figuring a Gain,* later. Recognized gains do not include gains you choose to postpone. See *Postponement of Gain,* later.

Figuring the Deduction

Generally, you must figure your loss separately for each item stolen, damaged, or destroyed. However, a special rule applies for nonbusiness real property.

Real property. In figuring a loss to real estate you own for personal use, all improvements, such as buildings and ornamental trees, are considered together. The loss is the smaller of:

1) The decrease in the FMV of the entire property, or
2) The adjusted basis of the entire property.

From this amount subtract:

1) The insurance and other reimbursement you receive or expect to receive,
2) $100, and
3) 10% of your adjusted gross income.

However, if you have more than one casualty or theft loss, subtract 10% of your adjusted gross income (AGI) from the total of all your losses for the year.

Any amount remaining after you follow these steps is your personal casualty loss deduction.

Example 1. In June, a fire destroyed your lakeside cottage, which cost $44,800 (including $4,500 for the land) several years ago. (Your land was not damaged.) This was your only casualty or theft loss for the year. The FMV of the property immediately before the fire was $80,000 ($45,000 for the building and $35,000 for the land). The FMV immediately after the fire was $35,000 (value of the land). You collected $30,000 from the insurance company. Your adjusted gross income is $40,000. Your deduction for the casualty loss is $10,700, figured in the following manner:

1. Adjusted basis of the entire property (cost in this example)	$44,800
2. FMV of entire property before fire	$80,000
3. FMV of entire property after fire	35,000
4. Decrease in FMV of entire property	$45,000
5. Amount of loss (smaller of 1 or 4)	$44,800
6. Subtract insurance	30,000
7. Loss after reimbursement	$14,800
8. Subtract $100	100
9. Loss after $100 rule	$14,700
10. Subtract 10% of $40,000 AGI	4,000
11. **Casualty loss deduction**	**$10,700**

Example 2. You bought your home a few years ago. You paid $50,000 ($10,000 for the land and $40,000 for the house). You also spent an additional $2,000 for landscaping. This year a fire destroyed your home. The fire also damaged the shrubbery and trees in your yard. The fire was your only casualty or theft loss this year. Competent appraisers valued the property as a whole at $75,000 before the fire, but only $15,000 after the fire. Shortly after the fire, the insurance company paid you $45,000 for the loss. Your adjusted gross income is $48,000. You figure your casualty loss deduction as follows:

1. Adjusted basis of the entire property (cost of land, building, and landscaping)	$52,000
2. FMV of entire property before fire	$75,000
3. FMV of entire property after fire	15,000
4. Decrease in FMV of entire property	$60,000
5. Amount of loss (smaller of 1 or 4)	$52,000
6. Subtract insurance	45,000
7. Loss after reimbursement	$ 7,000
8. Subtract $100	100
9. Loss after $100 rule	$ 6,900
10. Subtract 10% of $48,000 AGI	4,800
11. **Casualty loss deduction**	**$ 2,100**

Personal property. Personal property is generally any property that is not real property. If your personal property is stolen or is damaged or destroyed by a casualty, you must figure your loss separately for each item of property.

The loss is the smaller of:

1) The decrease in the FMV of the property, or
2) The adjusted basis of the property.

From this amount subtract:

1) The insurance and other reimbursement you receive or expect to receive,
2) $100, and
3) 10% of your adjusted gross income.

However, if you have more than one casualty or theft loss, subtract 10% of your adjusted gross income (AGI) from the total of all your losses for the year.

Any amount remaining after you follow these steps is your personal casualty loss deduction.

Example 1. In August, a storm destroyed your pleasure boat, which cost you $8,500. This was your only casualty or theft loss for the year. Its FMV immediately before the storm was $7,000. You had no insurance, but were able to salvage the motor of the boat and sell it for $200. Your adjusted gross income is $52,000.

Although the motor was sold separately, it is part of the boat and not a separate item of property. You figure your casualty loss deduction as follows:

1. Adjusted basis (cost in this example)	$8,500
2. FMV before storm	$7,000
3. FMV after storm	200
4. Decrease in FMV	$6,800
5. Amount of loss (smaller of 1 or 4)	$6,800
6. Subtract insurance	–0–
7. Loss after reimbursement	$6,800
8. Subtract $100	100
9. Loss after $100 rule	$6,700
10. Subtract 10% of $52,000 AGI	5,200
11. **Casualty loss deduction**	**$1,500**

Example 2. In June, you were involved in an auto accident that totally destroyed your personal car and your antique pocket watch. You had bought the car for $10,000. The FMV of the car just before the accident was $7,500. Its FMV just after the accident was $80 (scrap value). Your insurance company reimbursed you $6,000.

Your watch was not insured. You had purchased it for $250. Its FMV just before the accident was $500. Your adjusted gross income is $31,000. Your casualty loss deduction is zero, figured as follows:

	Car	**Watch**
1. Adjusted basis (cost)	$10,000	$ 250
2. FMV before accident	$ 7,500	$ 500
3. FMV after accident	80	–0–
4. Decrease in FMV	$ 7,420	$ 500
5. Loss (smaller of 1 or 4)	$ 7,420	$ 250
6. Subtract insurance	6,000	–0–
7. Loss after reimbursement	$ 1,420	$ 250
8. Total loss		$1,670
9. Subtract $100		100
10. Loss after $100 rule		$1,570
11. Subtract 10% of $31,000 AGI		3,100
12. **Casualty loss deduction**		**$ –0–**

Both real and personal properties. When a casualty involves both real and personal properties, you must figure the loss separately for each type of property, as shown in the previous examples. But you apply a single $100 reduction to the total loss. Then you apply the 10% rule.

Example. In July, a hurricane damaged your home, which cost you $64,000 including land. The FMV of the property (both building and land) immediately before the storm was $70,000 and its FMV immediately after the storm was $60,000. Your household furnishings were also damaged. You have separately figured the loss on each damaged household item and have arrived at a total loss of $600.

You collected $5,000 from the insurance company for the damage to your home, but your household furnishings were not insured. Your adjusted gross income is $44,000. You figure your casualty loss deduction from the hurricane in the following manner:

1. Adjusted basis of real property (cost in this example)	$64,000
2. FMV of real property before hurricane	$70,000
3. FMV of real property after hurricane	60,000
4. Decrease in FMV of real property	$10,000
5. Loss on real property (smaller of 1 or 4)	$10,000
6. Subtract insurance	5,000
7. Loss on real property after reimbursement	$ 5,000
8. Loss on furnishings	$ 600
9. Subtract insurance	–0–
10. Loss on furnishings after reimbursement	$ 600
11. Total loss (7 plus 10)	$ 5,600
12. Subtract $100	100
13. Loss after $100 rule	$ 5,500
14. Subtract 10% of $44,000 AGI	4,400
15. **Casualty loss deduction**	**$ 1,100**

Property used partly for business and partly for personal purposes. When property is used partly for personal (nonbusiness) purposes and partly for business or income-producing purposes, the casualty or theft loss deduction must be figured separately for the nonbusiness portion and for the business portion. You must figure each loss separately because the losses attributed to these two uses are figured in two different ways. The $100 rule and the 10% rule apply only to the casualty or theft loss on the nonbusiness portion of the property.

Example. You own a building that you constructed on leased land. You use half of the building for your business and you live in the other half. The cost of the building was $40,000. You made no further improvements or additions to it.

A flood in March damaged the entire building. The FMV of the building was $38,000 immediately before the flood and $32,000 afterwards. Your insurance reimbursed you $4,000 for the flood damage. Depreciation on the business part of the building before the flood totaled $2,400. Your adjusted gross income is $25,000.

You have a deductible business casualty loss of $1,000. You do not have a deductible personal casualty loss because of the $100 rule and the 10% rule. You figure your loss as follows:

	Business Part	Personal Part
1. Cost (total $40,000)	$20,000	$20,000
2. Subtract depreciation	2,400	–0–
3. Adjusted basis	$17,600	$20,000
4. FMV before flood (total $38,000)	$19,000	$19,000
5. FMV after flood (total $32,000)	$16,000	$16,000
6. Decrease in FMV	$ 3,000	$ 3,000
7. Amount of loss (smaller of 3 or 6)	$ 3,000	$ 3,000
8. Subtract insurance	$ 2,000	$ 2,000
9. Loss after reimbursement	$ 1,000	$ 1,000
10. Subtract $100 on nonbusiness property	–0–	100
11. Loss after $100 rule	$ 1,000	$ 900
12. Subtract 10% of $25,000 AGI on nonbusiness property	–0–	2,500
13. **Deductible business loss**	**$ 1,000**	
14. **Deductible personal loss**		**$ –0–**

Figuring a Gain

If you receive insurance or other reimbursement that is more than your adjusted basis in the destroyed, damaged, or stolen property, you have a gain from the casualty or theft. Your gain is:

- The amount you receive, less
- Your adjusted basis in the property at the time of the casualty or theft.

Even if the decrease in FMV of your property is smaller than the adjusted basis of your property, use your adjusted basis to figure the gain.

The amount you receive includes any money plus the value of any property you receive, minus any expenses you have in obtaining reimbursement. It also includes any reimbursement used to pay off a mortgage or other lien on the damaged, destroyed, or stolen property.

Example. A hurricane destroyed your personal residence and the insurance company awarded you $45,000. You received $40,000 in cash. The remaining $5,000 was paid directly to the holder of a mortgage on the property. The reimbursement you received includes the $5,000 paid on the mortgage.

Reporting a gain. You generally must report your gain as income in the year you receive the reimbursement. But you do not have to report your gain if you meet certain requirements and choose to postpone the gain according to the rules explained under *Postponement of Gain.*

You also do not report a gain if you receive reimbursement in the form of property similar or related in service or use to the destroyed or stolen property. Your basis in the new property is the same as your adjusted basis in the property it replaces.

For information on how to report a gain, see *How to Report Gains and Losses,* later.

Note. If you have a nonbusiness casualty or theft gain you choose to postpone (as explained next) and you also have another nonbusiness casualty or theft loss, do not consider the gain you are postponing when figuring your casualty or theft loss deduction. See *10% Rule,* under *Deduction Limits,* earlier.

Postponement of Gain

You must ordinarily report the gain on your stolen or destroyed property if you receive money or unlike property as reimbursement. But you can choose to postpone reporting the gain if, within a specified period of time (see ***Replacement period,*** later), you acquire qualified ***replacement property*** (discussed later). The replacement property must be similar or related in service or use to your stolen or destroyed property. If you have a gain on damaged property, you can postpone the gain if you spend the reimbursement to restore the property.

To postpone all the gain, the cost of your replacement property must be at least as much as the reimbursement you receive. If the cost of the replacement property is less than the reimbursement, you must include the gain in your income up to the amount of the unspent reimbursement.

Example. In 1955, you bought an ocean-front cottage for your personal use at a cost of $8,000. You made no further improvements or additions to it. In January 1995, when a storm destroyed the building, the cottage was worth $50,000. You received $46,000 from the insurance company in March 1995. Therefore, you had a gain of $38,000 ($46,000 − $8,000).

You spent $44,000 to rebuild the cottage. Since this is less than the insurance proceeds received, you must include $2,000 ($46,000 − $44,000) in your income.

Making the replacement. You must buy replacement property for the specific purpose of replacing your destroyed or stolen property. You do not have to use the same funds you receive as reimbursement for your old property to acquire the replacement property. Thus, if you spend the money you receive from the insurance company for other purposes, and borrow money to buy replacement property, you can still postpone the gain if you meet the other requirements.

You must buy the replacement property to be able to postpone gain. Property you acquire as a gift or inheritance does not qualify.

Advance payment. If you pay a contractor in advance to replace your destroyed or stolen property, you are not considered to have bought replacement property unless it is finished before the end of the replacement period. See *Replacement period,* later.

Replacement property. Replacement property must be similar or related in service or use to the property it replaces. For nonbusiness property, ''similar or related in service or use'' means that the replacement property must function the same as the property it replaces.

Example. A fire destroyed your home. Your insurance reimbursement results in a gain. To postpone reporting all of the gain, you must replace your home with another home that costs at least as much as the reimbursement you received. If you do not buy or build a new home, but instead buy an apartment house to use solely for rental income, you cannot postpone reporting any of the gain. The apartment house is not similar or related in service or use to your destroyed home.

Main home in disaster area. Special rules apply to replacement property related to the involuntary conversion of your main home (or its contents) if located in a federally declared disaster area. See *Disaster Area Losses,* later.

Basis of replacement property. Your basis in replacement property is its cost minus any gain postponed. In this way, tax on the gain is postponed until you dispose of the replacement property.

Example. A fire destroyed your home. The insurance company reimbursed you $67,000 for the property, which had an adjusted basis of $62,000. You therefore had a gain of $5,000 from the casualty. If you have another home constructed for $70,000 within the time limit, you can postpone reporting the gain. You will have reinvested all the reimbursement (including your entire gain) in your new home. Your basis for the new home will be $65,000 ($70,000 cost minus $5,000 postponed gain).

Replacement period. To postpone reporting your gain, you must buy replacement property within a specified period of time. This is the ''replacement period.''

The replacement period begins on the date your property was damaged, destroyed, or stolen.

The replacement period ends 2 years after the close of the first tax year in which any part of your gain is realized. However, if your business or income-producing real property is condemned, your replacement period is 3 years.

Main home in disaster area. The replacement period is 4 years for your main home (or its contents) if located in a federally declared disaster area. See *Disaster Area Losses,* later.

Example 1. You are a calendar year taxpayer. A hurricane destroyed your home in September 1995. In December 1995, the insurance company paid you $3,000 more than the adjusted basis of your home. The area in which your home is located is not a federally declared disaster area. Because you first realized a gain from the reimbursement for the casualty in 1995, you have until December 31, 1997, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 1999, to replace the property.

Example 2. You are a calendar year taxpayer. While you were on your vacation, a valuable piece of antique furniture that cost $2,200 was stolen from your home. You discovered the theft when you returned home on August 11, 1995. Your insurance company investigated the theft and did not settle your claim until January 3, 1996, when they paid you $3,000. Because you first realized a gain from the reimbursement for the theft during 1996, you have until December 31, 1998, to replace the property.

Extension. You may get an extension of the replacement period if you apply to the District Director for your area. Your application must contain all the details about the need for the extension. You should make the application before the end of the replacement period.

However, you can file an application within a reasonable time after the replacement period ends if you have a good reason for the delay. An extension may be granted if you can show that there is reasonable cause for not making the replacement within the regular period.

Ordinarily, requests for extensions are not made or granted until near the end of the replacement period, or the extended replacement period. Extensions are usually limited to a period of not more than 1 year. The high market value or scarcity of replacement property is not sufficient grounds for granting an extension. If your replacement property is being constructed and you clearly show that the replacement or restoration cannot be made within the replacement period, you may be granted an extension of the period.

How to postpone a gain. You postpone your gain from a casualty or theft by reporting your choice on your tax return for the year you have the gain. You have the gain in the year you receive insurance proceeds or other reimbursements that result in a gain.

You should attach a statement to your return for the year you have the gain. This statement should include the following information:

- The date and details of the casualty or theft,
- The amount (insurance or other reimbursement) you received from the casualty or theft, and
- How you figured the gain.

Replacement property acquired before return filed. If you acquire replacement property before you file your return for the year you have the gain, your statement should also include detailed information about:

- The replacement property,
- The postponed gain,
- The basis adjustment that reflects the postponed gain, and
- Any gain you are reporting as income.

Replacement property acquired after return filed. If you intend to acquire replacement property after you file your return for the year in which you have the gain, your statement should also state that you are choosing to replace the property within the required replacement period.

You should then attach another statement to your return for the year in which you acquire the replacement property. This statement should contain detailed information on the replacement property.

If you acquire part of your replacement property in one year and part in another year, you must make a statement for each year. The statement should contain detailed information on the replacement property bought in that year.

Substituting replacement property. Once you have acquired qualified replacement property that you designate as replacement property, you cannot later substitute other qualified replacement property. This is true even if you acquire the other property within the replacement period. The designation is made by the statement with your return reporting that you have acquired replacement property. However, if you discover that the original replacement property was not qualified replacement property, you can (within the replacement period) substitute the new qualified replacement property.

Amended return. You must file an amended return (Form 1040X) for the tax year you made the choice to postpone gain in either of the following situations:

1) You do not acquire replacement property within the required replacement period. On this amended return, you must report the gain and pay any additional tax due.
2) You acquire replacement property within the required replacement period but at a cost less than the amount you receive from the casualty or theft. On this amended return you must report the portion of the gain that cannot be postponed and pay any additional tax due.

Three-year limit. The period for assessing tax on any gain ends 3 years after the date you notify the Director of the Internal Revenue Service Center where you filed your return that:

- You replaced the property,
- You do not intend to replace the property, or
- You did not replace the property within the specified period of time.

Death of a taxpayer. If a taxpayer dies after having a gain but before buying replacement property, the gain must be reported for the year in which the decedent realized the gain. The executor of the estate or the person succeeding to the funds from the casualty or theft cannot postpone the gain by buying replacement property.

Changing your mind. You can change your mind about whether to report or to postpone your gain at any time before the end of the replacement period.

Example. In 1993 your property was stolen. Your insurance company reimbursed you $10,000, of which $5,000 was a gain. You reported the $5,000 gain on your return for 1993 (the year you realized the gain) and paid the tax that was due. In 1995 you bought replacement property within the replacement period. Your replacement property cost $9,000. Since you reinvested all but $1,000 of your reimbursement, you can now postpone $4,000 ($5,000 − $1,000) of your gain.

To postpone your gain, file an amended return for 1993, using Form 1040X, *Amended U.S. Individual Income Tax Return.* You should attach an explanation showing that you previously reported the entire gain from the theft but you now want to report only the part of the gain ($1,000) equal to the part of the reimbursement not spent for replacement property.

When to Report a Gain or a Loss

If you have insurance or other reimbursement that is more than your basis in the destroyed or stolen property, you have a ***gain*** from the casualty or theft. You must include this gain in your income in the year you receive the reimbursement, unless you choose to postpone the gain as explained earlier.

Generally, you can deduct a ***casualty loss*** only in the tax year in which the casualty occurred. This is true even if you do not repair or replace the damaged property until a later year. (But see *Disaster Area Losses,* later.)

If your loss is a ***loss on deposits*** at an insolvent or bankrupt financial institution, see *Loss on Deposits,* earlier.

You generally can deduct ***theft losses*** only in the year you discover your property was stolen. You must be able to show there was a theft, but you do not have to know when the theft occurred.

Lessee's loss. If your loss is on leased property and you were liable to the owner for the loss, you can deduct the loss only in the year in which the liability becomes fixed. This is true even if the loss occurred or the liability was paid in a different year.

Reimbursement Claims

If there is a reasonable prospect you will be reimbursed for part or all of your loss, you must subtract the expected reimbursement to figure your loss. You must reduce your loss even if you do not receive payment until a later tax year. You are believed to have a reasonable prospect of reimbursement if you have filed suit for damages.

If you later receive less reimbursement than you expected, include that difference as a loss with your other losses (if any) on your return for the year in which you can reasonably expect no more reimbursement.

Example. Your personal car had an FMV of $2,000 when it was destroyed in a collision with another car in 1994. The accident was due to the negligence of the other driver. At the end of the year, there was a reasonable prospect that the owner of the other car would reimburse you in full. Therefore, you do not have a deductible loss in 1994.

In January 1995, the court awards you a judgment of $2,000. However, in July it becomes apparent that you will be unable to collect any amount from the other driver. Since this is your only casualty or theft loss, you can deduct the loss in 1995 that is more than $100 and 10% of your 1995 adjusted gross income.

If you later receive more reimbursement than you expected, after you have claimed a deduction for the loss, you may have to include the extra reimbursement in your income for the year you receive it. However, if any part of the original deduction did not reduce your tax for the earlier year, do not include that part of the reimbursement in your income. You do not refigure your tax for the year you claimed the deduction. Publication 525 has a worksheet for you to use when only part of your original deduction reduced your tax in an earlier year.

Example. In 1994, a hurricane destroyed your motorboat. Your loss was $3,000, and you estimated that your insurance would cover $2,500 of it. Since you did not itemize deductions on your return in 1994, you could not deduct the loss. When the insurance company reimburses you for the loss, you do not have to report any of the reimbursement as income. This is true even if it is for the full $3,000 because you did not deduct the loss on your return. The loss did not reduce your tax.

Note. If the total of all the reimbursements you receive is more than your adjusted basis in the destroyed or stolen property, you will have a ***gain*** on the casualty or theft. If you have already taken a deduction for a loss and you receive the reimbursement in a later year, you must include it in your income for the later year. Include the reimbursement as ordinary income to the extent your deduction reduced your tax for the earlier year.

You must also report your gain in the later year. But you may be able to postpone reporting your gain as explained under *Postponement of Gain,* earlier.

If you receive exactly the reimbursement you expected to receive, you do not have any amount to include in your income or any loss to deduct.

Example. In December 1994, you had a collision while driving your personal car. Repairs to the car cost $950. You had $100 deductible collision insurance. Your insurance company agreed to reimburse you for the rest of the damage. As a result of your expected reimbursement from the insurance company, you do not have a casualty loss deduction in 1994.

Due to the $100 rule, you cannot deduct the $100 you paid as the deductible. When you receive the $850 from the insurance company in 1995, you do not have to report it as income.

Recovered Property

Recovered property is your property that was stolen and later returned to you. If you recovered property after you had already taken a theft loss deduction, you must refigure your loss using the smaller of the property's adjusted basis (explained under *Figuring a Loss,* earlier) or the decrease in FMV from the time it was stolen until the time it was recovered. Use this amount to refigure your total loss for the year in which the loss was deducted.

This is your refigured loss. If this amount is less than the loss you deducted, you generally have to report the difference as income in the recovery year. But report the difference only up to the amount of the loss that reduced your tax.

Disaster Area Losses

If you have a casualty loss from a disaster that occurred in an area declared eligible for federal assistance under the Disaster Relief and Emergency Assistance Act, you can choose to deduct that loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened. If you make this choice, the loss is treated as having occurred in the preceding year.

Example. You are a calendar year taxpayer. In June 1995, a flood damaged your home. The flood damaged or destroyed a considerable amount of property in your town. The town was declared a federal disaster area as the result of the flood. You can choose to deduct the flood loss on your home on your 1994 return.

Home made unsafe by disaster. If your home is located in a federal disaster area, your state or local government may order you to tear it down or move it because it is no longer safe to live in because of the disaster. If this happens, treat the loss in value as a casualty loss from a disaster. Your state or local government must issue the order for you to tear down or move the home within 120 days after the area is declared a disaster area.

Figure your loss in the same way as for other nonbusiness casualty losses. (See *Figuring a Loss,* earlier.) Use the value of your home before you move it or tear it down as its FMV after the casualty.

Table 2. **When to Deduct a Loss**

Type of Loss	Tax Year Deducted	Can You Choose Years?
Casualty losses	Year loss occurred	No
Loss on deposits		
• Casualty loss	Year a reasonable estimate can be made	No
• Bad debt	Year deposits are totally worthless	No
• Ordinary loss	Year a reasonable estimate can be made	No
Federal disasters	Year the disaster occurred or the year immediately before the disaster	Yes
Thefts	Year of discovery of the theft	No

Unsafe home. Your home will be considered unsafe only if:

1) Your home is substantially more dangerous after the disaster than it was before the disaster, and
2) The danger is from a substantially increased risk of future destruction from the disaster.

You do not have a casualty loss if your home is unsafe due to dangerous conditions existing before the disaster. (For example, the location of your house is in an area known for severe storms.) This is true even if your home is condemned.

Example. Because of a severe storm, the county you live in is declared a federal disaster area. Although your home has only minor damage from the storm, a month later the county issues a demolition order. This order is based on a finding that your home is unsafe due to nearby mud slides caused by the storm. The loss in your home's value because the mud slides made it unsafe is treated as a casualty loss from a disaster. The loss in value is the difference between your home's FMV immediately before the disaster and immediately after the disaster.

How to deduct your loss in the preceding year. If you choose to deduct your loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened, include a statement saying that you are making that choice. The statement can be made on the return or can be filed with the return. The statement should specify the date or dates of the disaster and the city, town, county, and state where the damaged or destroyed property was located at the time of the disaster.

Time limit for making choice. You must make this choice to take your casualty loss for the disaster in the preceding year by the later of:

- The due date (without extensions) for filing your income tax return for the tax year in which the disaster actually occurred, or
- The due date (with extensions) for the return for the preceding tax year.

If you are a calendar year taxpayer, you ordinarily have until April 15, 1996, to amend your 1994 tax return to claim a casualty loss that occurred during 1995.

Revoking your choice. You can revoke your choice within 90 days after making it by returning to the Internal Revenue Service any refund or credit you received from making the choice. However, if you revoke your choice before receiving a refund, you must return the refund within 30 days after receiving it for the revocation to be effective.

Figuring the loss deduction. You must figure the loss under the usual rules for casualty losses, as if it occurred in the year preceding the disaster.

Example. On June 21, 1995, a disaster damaged your home, which cost $34,000, including land. This was your only casualty loss for the year. The area was later determined to warrant federal assistance. The FMV of the property immediately before the disaster was $47,500 and the FMV immediately afterwards was $15,000. Your household furniture was destroyed.

You have separately figured the loss on each item of furniture (see *Figuring the Deduction,* earlier) and have arrived at a total loss for furniture of $3,000. Your insurance did not cover this type of casualty loss and you expect no reimbursement for either your home or your furniture.

You choose to amend your 1994 return to claim your casualty loss for the disaster. Your adjusted gross income on line 32 of your 1994 Form 1040 is $40,000. You figure your casualty loss as follows:

	House	Furnishings
1. Cost	$34,000	$ 10,000
2. FMV before disaster	$47,500	$ 8,000
3. FMV after disaster	15,000	5,000
4. Decrease in FMV	$32,500	$ 3,000
5. Smaller of line 1 or 4	$32,500	$ 3,000
6. Subtract estimated insurance	–0–	–0–
7. Loss after reimbursement	$32,500	$ 3,000
8. Total loss		$ 35,500
9. Subtract $100		100
10. Loss after $100 rule		$ 35,400
11. Subtract 10% of $40,000 AGI		4,000
12. **Casualty loss deduction**		**$ 31,400**

If you do not choose to deduct your loss on your return for the earlier year, deduct it on your return for the year in which the disaster occurred.

Why you may want to take the deduction in the earlier year. Claiming a qualifying disaster loss on the previous year's return may result in a lower tax for that year, often producing or increasing a cash refund.

Claiming a disaster loss on Form 1040X. If you have already filed your return for the preceding year, you can claim a disaster loss against that year's income by filing a Form 1040X, *Amended U.S. Individual Income Tax Return.*

You should adjust your deductions on line 2 of Form 1040X. Explain the reasons for your adjustment in Part II and attach Form 4684 to show how you figured your loss. See *Figuring a Loss,* earlier.

Note: You should keep the records that support your loss deduction. You are not required to attach them to the amended return.

If you itemized deductions on the original return, enter your net change in column B, line 2. Add this amount to your original deductions (column A) to arrive at the correct amount in column C.

If you did not itemize your deductions on your original return, you must first determine whether the casualty loss deduction now makes it advantageous for you to itemize. If so, attach Schedule A (Form 1040), along with Form 4684, to your amended return. Fill out Form 1040X to refigure your tax on the rest of the form to find your refund.

Grants. You do not have to include grants received under the Disaster Relief and Emergency Assistance Act in your gross income. However, you cannot deduct a casualty loss to the extent you are specifically reimbursed by the grant.

Federal loan canceled. If part of your federal disaster loan was canceled under the Disaster Relief and Emergency Assistance Act, it is considered to be reimbursement for the loss. The cancellation reduces your casualty loss deduction.

Special rules for main home. Special rules apply to insurance proceeds you receive because of the involuntary conversion of your main home or its contents. The home must have been located in a federal disaster area.

Generally, your main home is the home in which you live. You do not have to own the home for these rules to apply to your contents in that home.

The following rules apply to a conversion because of a disaster in an area declared a federal disaster area after August 31, 1991.

- No gain is recognized because of any insurance proceeds received for unscheduled personal property that was part of the contents of the home.
- Any other insurance proceeds received for the home or its contents are treated as being received for a single item of property. Any replacement property (whether separately scheduled or unscheduled) you purchase that is similar or related in service or use to the home or its contents is treated as similar or related in service or use to that single item of property. Therefore, you can choose to recognize gain only to the extent these insurance proceeds exceed the cost of the replacement property. See *Postponement of Gain,* earlier.
- If you choose to postpone reporting any gain, the replacement period in which you must purchase replacement property is 4 years after the end of the first tax year in which any part of your gain is realized.

Example 1. Your main home and its contents were completely destroyed by a flood in 1995. Because of this flood, the county in which your main home was located was declared a disaster area.

You received insurance proceeds in 1995 as follows:

- $200,000 for the home,
- $25,000 for unscheduled personal property in the home,

- $5,000 for jewelry, and
- $10,000 for a stamp collection.

The jewelry and stamp collection were kept in your home and were scheduled property on your insurance policy.

No gain is recognized on the $25,000 you received for the unscheduled personal property.

You can choose to postpone reporting any gain on the remaining proceeds of $215,000 ($200,000 + $5,000 + $10,000) if you acquire property similar or related in service or use to your home, jewelry, or stamp collection. If you use all of the proceeds to purchase a new main home, you can postpone all of your gain even if you do not purchase any jewelry or stamps. If your cost is less than $215,000, you must include the gain in income to the extent the proceeds exceed the amount you use for property similar or related in service or use to your home, jewelry, or stamp collection.

To postpone gain, you must purchase the replacement property before 2000. Your basis in the replacement property is its cost minus the amount of any postponed gain.

Example 2. You rent an apartment which is your main home. Your apartment and its contents were completely destroyed by a hurricane in 1995. Because of this hurricane, the county in which your main home was located was declared a disaster area.

You received insurance proceeds of $17,000 for unscheduled personal property in your apartment. Even though you do not own your main home, no gain is recognized on these proceeds.

How to Report Gains and Losses

If you have a ***loss*** from a casualty or theft of nonbusiness property, use:

- Form 4684, and
- Schedule A (Form 1040), *Itemized Deductions.*

If you have a ***gain*** from a casualty or theft of nonbusiness property, report your gain on:

- Form 4684, and
- Schedule D (Form 1040), *Capital Gains and Losses.*

Form 4684

Use Section A of Form 4684 to figure and report your gain or loss. Be sure to attach Form 4684 to your return.

Section A—Personal Use Property. This section is for casualties and thefts of property ***not*** used in a trade or business or for income producing purposes. You must list each item or article for which you are reporting a casualty or theft on Form 4684. The form has space to figure a loss or a gain on up to four items of property. If more than four items of property were damaged or stolen in a single casualty or theft, you will need to complete lines 1 through 9 of additional Forms 4684. Or, you may want to substitute your own statement for these lines. The statement must include the same information asked for on lines 1 through 9. If you have to figure your loss on many different personal and household items, you may want to use the worksheets in Publication 584.

More than one casualty or theft loss. If you had more than one casualty or theft during the year, you must use separate Forms 4684 and complete lines 1 through 12 for each casualty or theft. Use only one Form 4684 for lines 13 through 18.

Losses. If you had a loss from a casualty or theft, complete Section A, lines 1 through 18. Enter the amount from line 18 of Form 4684 on line 19 of Schedule A (Form 1040).

Gains. If you had a gain from a casualty or theft, complete Section A and enter the amount from line 15 of Form 4684 on Schedule D (Form 1040).

If your gain is short-term (property held one year or less), enter it on line 4 in Part I of Schedule D. If your gain is long-term (property held more than one year), enter it on line 12 in Part II of Schedule D.

Gains and losses. If you had both gains and losses, and your gains are more than your losses, complete Section A through line 15. You do not have to complete the rest of Form 4684. Then combine your short-term gains with your short-term losses, and enter the net short-term amount on line 4 in Part I of Schedule D (Form 1040). Combine your long-term gains with your long-term losses and enter the net long-term amount on line 12 in Part II of Schedule D.

If your losses are more than your gains, complete Section A through line 18. Enter the amount from line 18 of Form 4684 on line 19 of Schedule A (Form 1040).

Adjustments to Basis

If you have a casualty or theft loss, you must decrease your basis in the property by any insurance or other reimbursement you receive and by any deductible loss. The result is your adjusted basis in the property. Amounts you spend to restore your property after a casualty increase your adjusted basis. See *Adjusted Basis* in Publication 551 for more information.

If Loss Is More Than Income

If your casualty or theft loss deduction is more than your income for the year, you may have a ***net operating loss.*** You can use a net operating loss to lower your tax in an earlier year allowing you to get a refund for tax you already paid. Or, you can use it to lower your tax in a later year. You do not have to be in business to have a net operating loss from a casualty or theft. For more information, get Publication 536, *Net Operating Losses.*

Examples

The following two examples explain how to report casualty and theft gains and losses. The examples have filled-in sample Forms 4684 at the end of this publication.

Example 1. A fire in the home of Janet Trees destroyed an upholstered chair, an oriental rug, and an antique table. Janet did not have fire insurance to cover her loss. (This was the only casualty or theft she had during the year.) The chair had cost her $750 and had an FMV of $500 just before the fire. The rug had cost her $3,000 and had a value of $2,500 just before the fire. Janet had bought the table at an auction for $100 before discovering it was an antique. It had been appraised at $900 before the fire. Her adjusted gross income is $27,000. Janet figures her loss on each of these items as follows:

	Chair	Rug	Table
1. Basis (cost)	$750	$3,000	$ 100
2. FMV before fire	$500	$2,500	$ 900
3. FMV after fire	–0–	–0–	–0–
4. Decrease in FMV	$500	$2,500	$ 900
5. Loss (smaller of 1 or 4)	$500	$2,500	$ 100
6. Total loss			$3,100
7. Subtract $100			100
8. Loss after $100 rule			$3,000
9. Subtract 10% of $27,000			2,700
10. **Casualty loss deduction**			**$ 300**

The loss on the chair is its decrease in FMV of $500 because this amount is smaller than its basis of $750.

The loss on the rug is its decrease in FMV of $2,500 because this amount is smaller than its basis of $3,000.

The table, however, had a decrease in FMV that was greater than Janet's basis in it. Her loss on the table, therefore, is its basis of $100.

Janet's total loss from the fire is $3,000 after applying the $100 rule. After applying the 10% rule, her deductible loss is $300.

Janet's losses for each of the three items are shown on line 9 of her Form 4684 which is at the end of this publication. After entering the total loss ($3,100) on line 10, she subtracts the nondeductible $100, leaving her with a loss of $3,000 on line 12. She also enters $3,000 on lines 13 and 16. On line 17, she enters $2,700 ($27,000 × .10) and subtracts it from line 16. Janet enters her deductible loss of $300 ($3,000 − $2,700) on line 18 and transfers it to line 19 of her Schedule A (Form 1040).

Example 2. In June, a hurricane destroyed John Oaks's summer cottage. John had built the cottage on a lot 3 years before for $20,000. The lot cost him $3,000. The FMV immediately before the hurricane was $35,000 ($10,000 for the land, $25,000 for the cottage). There was no damage to the land. John's insurance company reimbursed him

$25,000 for the loss of his cottage. John does not plan to replace the cottage.

Later in the same year John's home was broken into on two separate occasions. During the first theft, a diamond ring was stolen. He had bought the ring only 3 months before the burglary for $1,000. During the second theft, clothes, silverware, jewelry, and a stereo were stolen. The items in the second theft were bought at various times, but all more than 1 year before the burglary. John establishes that these articles cost him a total of $7,240 when he originally bought them ($2,190 for the clothes, $1,850 for the silverware, $2,000 for the jewelry, and $1,200 for the stereo). A competent appraisal of each item showed their FMV totaled only $4,300 immediately before the theft ($850 for the clothes, $1,850 for the silverware, $1,100 for the jewelry, and $500 for the stereo). John was not covered by insurance for either theft. His adjusted gross income is $28,000.

John's casualty gain on the summer cottage is $2,000:

1. Adjusted basis (cost)	$23,000
2. FMV immediately before the hurricane	$35,000
3. FMV after the hurricane	10,000
4. Decrease in FMV	$25,000
5. Amount of loss (smaller of 1 or 4)	$23,000
6. Subtract insurance	25,000
7. **Casualty gain**	**$ 2,000**

John completes lines 1 through 4, Section A of Form 4684. He enters the amount from line 4 ($2,000) on line 14.

John's loss for the first theft is $900:

1. Basis of diamond ring (cost)	$1,000
2. FMV immediately before theft	$1,000
3. FMV immediately after theft	–0–
4. Decrease in FMV	$1,000
5. Amount of loss (smaller of 1 or 4)	$1,000
6. Subtract insurance	–0–
7. Loss after reimbursement	$1,000
8. Subtract $100	100
9. **Loss on first theft** (after $100 rule)	**$ 900**

John's loss for the second theft is $4,200:

10. Basis of articles stolen (cost of clothes, silverware, etc.)	$7,240
11. FMV immediately before theft	$4,300
12. FMV immediately after theft	–0–
13. Decrease in FMV	$4,300
14. Amount of loss (smaller of 10 or 13)	$4,300
15. Subtract insurance	–0–
16. Loss after reimbursement	$4,300
17. Subtract $100	100
18. **Loss on second theft** (after $100 rule)	**$4,200**

John's deductible loss is $300:

19. Loss on first theft	$ 900
20. Add loss on second theft	4,200
21. ***Total losses***	**$5,100**
22. ***Gain on cottage***	**2,000**
23. Subtract line 22 from line 21	$3,100
24. Subtract 10% of $28,000 AGI	2,800
25. **Casualty and theft loss deduction**	**$ 300**

John fills out separate Forms 4684 through line 12 for each theft. He adds the amounts on line 12 of each of these forms. John enters the total, $5,100, on line 13 of the Form 4684 that shows the gain on the cottage. Since his losses are more than his gain, John subtracts line 14 from line 13 and enters $3,100 on line 16. On line 17, he enters $2,800, subtracts it from the amount on line 16, and enters $300 on line 18. This is John's casualty and theft loss deduction. John transfers $300 to line 19 of his Schedule A (Form 1040).

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each different casualty or theft.

OMB No. 1545-0177
1995
Attachment Sequence No. 26

Name(s) shown on tax return: JANET TREES | Identifying number: 987-00-6543

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):

Property A ...... UPHOLSTERED CHAIR ...... SIOUX FALLS, SD 1/23/94
Property B ...... ORIENTAL RUG ...... SIOUX FALLS, SD 12/17/93
Property C ...... ANTIQUE TABLE ...... SIOUX FALLS, SD 3/12/94
Property D ......

		Properties (Use a separate column for each property lost or damaged from one casualty or theft.)			
		A	B	C	D
2 Cost or other basis of each property	2	750	3,000	100	
3 Insurance or other reimbursement (whether or not you filed a claim). See instructions	3	0	0	0	
Note: *If line 2 is more than line 3, skip line 4.*					
4 Gain from casualty or theft. If line 3 is **more than** line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	4				
5 Fair market value **before** casualty or theft	5	500	2,500	900	
6 Fair market value **after** casualty or theft	6	0	0	0	
7 Subtract line 6 from line 5	7	500	2,500	900	
8 Enter the **smaller** of line 2 or line 7	8	500	2,500	100	
9 Subtract line 3 from line 8. If zero or less, enter -0-	9	500	2,500	100	

10 Casualty or theft loss. Add the amounts on line 9. Enter the total	10	3,100
11 Enter the amount from line 10 or $100, whichever is **smaller**	11	100
12 Subtract line 11 from line 10	12	3,000
Caution: *Use only one Form 4684 for lines 13 through 18.*		
13 Add the amounts on line 12 of all Forms 4684	13	3,000
14 Combine the amounts from line 4 of all Forms 4684	14	0
15 • If line 14 is **more than** line 13, enter the difference here and on Schedule D. Do not complete the rest of this section (see instructions). • If line 14 is **less than** line 13, enter -0- here and continue with the form. • If line 14 is **equal to** line 13, enter -0- here. Do not complete the rest of this section.	15	0
16 If line 14 is **less than** line 13, enter the difference	16	3,000
17 Enter 10% of your adjusted gross income (Form 1040, line 32). Estates and trusts, see instructions	17	2,700
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter result on Schedule A (Form 1040), line 19. Estates and trusts, enter on the "Other deductions" line of your tax return	18	300

For Paperwork Reduction Act Notice, see page 1 of separate instructions. Cat. No. 12997O Form **4684** (1995)

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each different casualty or theft.

OMB No. 1545-0177

1995

Attachment Sequence No. **26**

Name(s) shown on tax return: JOHN OAKS

Identifying number: 876-00-5432

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):

Property A .... COTTAGE .... CHARLESTON, SC 1995

Property B ....

Property C ....

Property D ....

		Properties (Use a separate column for each property lost or damaged from one casualty or theft.) A	B	C	D
2 Cost or other basis of each property	2	23,000			
3 Insurance or other reimbursement (whether or not you filed a claim). See instructions	3	25,000			
Note: *If line 2 is more than line 3, skip line 4.*					
4 Gain from casualty or theft. If line 3 is more than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	4	2,000			
5 Fair market value **before** casualty or theft	5				
6 Fair market value **after** casualty or theft	6				
7 Subtract line 6 from line 5	7				
8 Enter the **smaller** of line 2 or line 7	8				
9 Subtract line 3 from line 8. If zero or less, enter -0-	9				

10 Casualty or theft loss. Add the amounts on line 9. Enter the total	10	
11 Enter the amount from line 10 or $100, whichever is smaller	11	
12 Subtract line 11 from line 10	12	
Caution: *Use only one Form 4684 for lines 13 through 18.*		
13 Add the amounts on line 12 of all Forms 4684	13	5,100 *
14 Combine the amounts from line 4 of all Forms 4684	14	2,000
15 • If line 14 is **more than** line 13, enter the difference here and on Schedule D. Do not complete the rest of this section (see instructions). • If line 14 is **less than** line 13, enter -0- here and continue with the form. • If line 14 is **equal to** line 13, enter -0- here. Do not complete the rest of this section.	15	0
16 If line 14 is **less than** line 13, enter the difference	16	3,100
17 Enter 10% of your adjusted gross income (Form 1040, line 32). Estates and trusts, see instructions	17	2,800
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter result on Schedule A (Form 1040), line 19. Estates and trusts, enter on the "Other deductions" line of your tax return	18	300

For Paperwork Reduction Act Notice, see page 1 of separate instructions. Cat. No. 12997O Form **4684** (1995)

*TOTAL OF LINES 12 OF FORMS 4684 ON WHICH 1ST AND 2ND THEFTS ARE REPORTED.

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each different casualty or theft.

OMB No. 1545-0177

1995

Attachment
Sequence No. **26**

Name(s) shown on tax return: JOHN OAKS

Identifying number: 876-00-5432

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):

Property A: DIAMOND RING — DURANGO, CO. — 1995
Property B
Property C
Property D

		Properties (Use a separate column for each property lost or damaged from one casualty or theft.) A	B	C	D
2 Cost or other basis of each property	2	1,000			
3 Insurance or other reimbursement (whether or not you filed a claim). See instructions	3	0			
Note: *If line 2 is more than line 3, skip line 4.*					
4 Gain from casualty or theft. If line 3 is **more than** line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	4				
5 Fair market value **before** casualty or theft	5	1,000			
6 Fair market value **after** casualty or theft	6	0			
7 Subtract line 6 from line 5	7	1,000			
8 Enter the **smaller** of line 2 or line 7	8	1,000			
9 Subtract line 3 from line 8. If zero or less, enter -0-	9	1,000			

10 Casualty or theft loss. Add the amounts on line 9. Enter the total	10	1,000
11 Enter the amount from line 10 or $100, whichever is **smaller**	11	100
12 Subtract line 11 from line 10	12	900 *
Caution: *Use only one Form 4684 for lines 13 through 18.*		
13 Add the amounts on line 12 of all Forms 4684	13	
14 Combine the amounts from line 4 of all Forms 4684	14	
15 • If line 14 is **more than** line 13, enter the difference here and on Schedule D. Do not complete the rest of this section (see instructions). • If line 14 is **less than** line 13, enter -0- here and continue with the form. • If line 14 is **equal** to line 13, enter -0- here. Do not complete the rest of this section.	15	
16 If line 14 is **less than** line 13, enter the difference	16	
17 Enter 10% of your adjusted gross income (Form 1040, line 32). Estates and trusts, see instructions	17	
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter result on Schedule A (Form 1040), line 19. Estates and trusts, enter on the "Other deductions" line of your tax return	18	

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*TRANSFERRED TO LINE 13 OF FORM 4684 ON WHICH COTTAGE IS REPORTED.

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each different casualty or theft.

OMB No. 1545-0177
1995
Attachment Sequence No. 26

Name(s) shown on tax return: JOHN OAKS

Identifying number: 876-00-5431

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):

Property A .... CLOTHES .... DURANGO, CO .... VARIOUS
Property B .... SILVERWARE .... DURANGO, CO .... VARIOUS
Property C .... JEWELRY .... DURANGO, CO .... VARIOUS
Property D .... STEREO .... DURANGO, CO .... VARIOUS

		Properties (Use a separate column for each property lost or damaged from one casualty or theft.)			
		A	B	C	D
2 Cost or other basis of each property	2	2,190	1,850	2,000	1,200
3 Insurance or other reimbursement (whether or not you filed a claim). See instructions	3	0	0	0	0
Note: *If line 2 is more than line 3, skip line 4.*					
4 Gain from casualty or theft. If line 3 is **more** than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	4				
5 Fair market value **before** casualty or theft	5	850	1,850	1,100	500
6 Fair market value **after** casualty or theft	6	0	0	0	0
7 Subtract line 6 from line 5	7	850	1,850	1,100	500
8 Enter the **smaller** of line 2 or line 7	8	850	1,850	1,100	500
9 Subtract line 3 from line 8. If zero or less, enter -0-	9	850	1,850	1,100	500

10 Casualty or theft loss. Add the amounts on line 9. Enter the total	10	4,300
11 Enter the amount from line 10 or $100, whichever is **smaller**	11	100
12 Subtract line 11 from line 10	12	4,200 *
Caution: *Use only one Form 4684 for lines 13 through 18.*		
13 Add the amounts on line 12 of all Forms 4684	13	
14 Combine the amounts from line 4 of all Forms 4684	14	
15 • If line 14 is **more than** line 13, enter the difference here and on Schedule D. Do not complete the rest of this section (see instructions). • If line 14 is **less than** line 13, enter -0- here and continue with the form. • If line 14 is **equal to** line 13, enter -0- here. Do not complete the rest of this section.	15	
16 If line 14 is **less than** line 13, enter the difference	16	
17 Enter 10% of your adjusted gross income (Form 1040, line 32). Estates and trusts, see instructions	17	
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter result on Schedule A (Form 1040), line 19. Estates and trusts, enter on the "Other deductions" line of your tax return	18	

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*TRANSFERRED TO LINE 13 OF FORM 4684 ON WHICH COTTAGE IS REPORTED.

How to Get IRS Forms and Publications

You can visit your local IRS office or order tax forms and publications from the IRS Forms Distribution Center listed for your state at the address on this page. Or, if you prefer, you can photocopy tax forms from reproducible copies kept at participating public libraries. In addition, many of these libraries have reference sets of IRS publications that you can read or copy.

Where To Mail Your Order Blank for Free Forms and Publications

If you live in:	Mail to:
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming, Guam, Northern Marianas, American Samoa	Western Area Distribution Center Rancho Cordova, CA 95743-0001
Alabama, Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Texas, Wisconsin	Central Area Distribution Center P.O. Box 8903 Bloomington, IL 61702-8903
Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia	Eastern Area Distribution Center P.O. Box 85074 Richmond, VA 23261-5074

Other locations:

Foreign Addresses—Taxpayers with mailing addresses in foreign countries should mail this order blank to either: Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107; or Western Area Distribution Center, Rancho Cordova, CA 95743-0001, whichever is closer. Mail letter requests for other forms and publications to: Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107.

Puerto Rico—Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107.

Virgin Islands—V.I. Bureau of Internal Revenue, Lockhart Gardens, No. 1-A Charlotte Amalie, St. Thomas, VI 00802

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Order Blank

We will send you 2 copies of each form and 1 copy of each publication or set of instructions you circle. Please cut the order blank on the dotted line above and **be sure to print or type your name and address accurately on the bottom portion.**

Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state.

To help reduce waste, please order only the forms, instructions, and publications you think you will need to prepare your return.

Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper listing the additional forms and publications you may need.

You should either receive your order or notification of the status of your order within 7-15 work days after we receive your re-

1040	Schedule F (1040)	Schedule 3 (1040A) & Instructions	2210 & Instructions	8606 & Instructions	Pub. 502	Pub. 560	Pub. 929
Instructions for 1040 & Schedules	Schedule H (1040)	1040EZ	2441 & Instructions	8822 & Instructions	Pub. 505	Pub. 554	Pub. 936
Schedules A&B (1040)	Schedule R (1040) & Instructions	Instructions for 1040EZ	3903 & Instructions	8829 & Instructions	Pub. 508	Pub. 575	
Schedule C (1040)	Schedule SE (1040)	1040-ES (1996) & Instructions	4562 & Instructions	Pub. 1	Pub. 521	Pub. 590	
Schedule C-EZ (1040)	1040A	1040X & Instructions	4868 & Instructions	Pub. 17	Pub. 523	Pub. 596	
Schedule D (1040)	Instructions for 1040A & Schedules	2106 & Instructions	5329 & Instructions	Pub. 334	Pub. 525	Pub. 910	
Schedule E (1040)	Schedule 1 (1040A)	2106-EZ & Instructions	8283 & Instructions	Pub. 463	Pub. 527	Pub. 917	
Schedule EIC (1040A or 1040)	Schedule 2 (1040A)	2119 & Instructions	8582 & Instructions	Pub. 501	Pub. 529	Pub. 926	

Name

Number and street

City or town State ZIP code

Page 19

Tax Publications for Individual Taxpayers

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
225 Farmer's Tax Guide
334 Tax Guide for Small Business
509 Tax Calendars for 1996
553 Highlights of 1995 Tax Changes
595 Tax Guide for Commercial Fishermen
910 Guide to Free Tax Services

Specialized Publications

3 Tax Information for Military Personnel (Including Reservists Called to Active Duty)
378 Fuel Tax Credits and Refunds
448 Federal Estate and Gift Taxes
463 Travel, Entertainment, and Gift Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
508 Educational Expenses
514 Foreign Tax Credit for Individuals
516 Tax Information for U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
520 Scholarships and Fellowships
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
534 Depreciating Property Placed in Service Before 1987
537 Installment Sales
541 Tax Information on Partnerships
544 Sales and Other Dispositions of Assets
547 Nonbusiness Disasters, Casualties, and Thefts
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Tax Information for Older Americans
555 Federal Tax Information on Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
560 Retirement Plans for the Self-Employed
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
575 Pension and Annuity Income (Including Simplified General Rule)
584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
587 Business Use of Your Home (Including Use by Day-Care Providers)
589 Tax Information on S Corporations
590 Individual Retirement Arrangements (IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 Understanding the Collection Process
596 Earned Income Credit
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Tax Information on Bankruptcy
911 Tax Information for Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
917 Business Use of a Car
919 Is My Withholding Correct for 1996?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
945 Tax Information for Those Affected by Operation Desert Storm
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000
1546 How to use the Problem Resolution Program of the IRS

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service

Commonly Used Tax Forms

1040 U.S. Individual Income Tax Return
Sch A Itemized Deductions
Sch B Interest and Dividend Income
Sch C Profit or Loss From Business
Sch C–EZ Net Profit From Business
Sch D Capital Gains and Losses
Sch E Supplemental Income and Loss
Sch EIC Earned Income Credit
Sch F Profit or Loss From Farming
Sch H Household Employment Taxes
Sch R Credit for the Elderly or the Disabled
Sch SE Self-Employment Tax
1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040A U.S. Individual Income Tax Return
Sch 1 Interest and Dividend Income for Form 1040A Filers
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers
1040–ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return
2106 Employee Business Expenses
2106–EZ Unreimbursed Employee Business Expenses
2119 Sale of Your Home
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts
2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952 Investment Interest Expense Deduction
5329 Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
6251 Alternative Minimum Tax–Individuals
8283 Noncash Charitable Contributions
8582 Passive Activity Loss Limitations
8606 Nondeductible IRAs (Contributions, Distributions, and Basis)
8822 Change of Address
8829 Expenses for Business Use of Your Home